STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, CA 94105

January 23, 2002 **RH-01018834**

The Commissioner is considering amendments to Title 10, California Code of Regulations, Section 2632.8, as follows:[1]

§2632.8 Factor Weights.

(a) For each type of coverage, four factor weights shall be ~~calculated,~~ evaluated. These four weights are: one weight for each of the three mandatory factors listed in Section 2632.5(c)(1) through (3) and one for all the optional factor~~s~~ (from Section 2632.5(d)) ~~taken~~ weights averaged together ~~as a single factor weight~~.

(b) The data used to compute the weight shall be based on one of the following:

1. all of the subject company's currently insured vehicles;

2. the same data set used to perform the sequential analysis in Section 2632.7; or

3. the set of insured vehicles that may be published by the Department of Insurance.

(c~~) For every insured vehicle in the data set and each rating factor utilized in the class plan:~~

~~1. First, calculate the premium using the initial relativities from Section 2632.7(c);~~
~~2. Second, calculate the premium excluding the rating factor being analyzed;~~
~~3. Third, calculate the absolute value of the difference between subdivision (c)(1) and subdivision (c)(2);~~
~~4. The weight for the rating factor being analyzed is the summation of the amounts in subdivision (3) divided by the number of calculations.~~

The weight of a rating factor is defined as follows:

[1] Proposed new language is underlined; proposed deleted language is shown in ~~strikethrough~~.

Alternative 1 The Exposure Only Method

For additive and multiplicative factors, the weight of Rating Factor j = $\Sigma|(R_i - R)|*E_i*B$

Where R_j – Balanced relativity of the i^{th} category of rating factor j (the superscript j is omitted, the same below)

R – Weighted average relativity (the balanced relativities are weighted by the percent of exposure so that R should be equal to 0 for additive factors and 1 for multiplicative factors)

E_i – Percent of exposure in the i^{th} category of rating factor j

B – Base rate

OR

Alternative 2 The Average Premium Method

For additive factors, the weight of Rating Factor j = $\Sigma|(R_i - R)|*E_i*B$

Where R_i – Balanced relativity of the i^{th} category of rating factor j (the superscript j is omitted, the same below)

R – Weighted average relativity (the balanced relativities are weighted by the percent of exposure so that R should be equal to 0 for additive factors)

E_i – Percent of exposure in the i^{th} category of rating factor j

B – Base rate

For multiplicative factors the weight of Rating Factor j = $\Sigma|(R_i - R)|*E_i*P_i / R_i$

Where R_i – Balanced relativity of the i^{th} category of rating factor j

R – Weighted average relativity (the balanced relativities are weighted by the percent of exposure so that R should be equal to 1 for multiplicative factors)

E_i – Percent of exposure in the i^{th} category of rating factor j

P_i – Average adjusted premium of the i^{th} category of rating factor j before any pumping or tempering

"Adjusted premium" is defined as the portion of the premium that is rating factor related. The adjusted premium may differ from the premium derived from the class plan. Premium derived from the class plan might include, for example, policy fees, that might have no interactions with any rating factors.

OR

Alternative 3 The Average Loss Cost Method

For additive factors, the weight of Rating Factor j = $\Sigma|(R_i - R)|*E_i*B$

Where R_i – Balanced relativity of the i^{th} category of rating factor j (the superscript j is omitted, the same below)

R – Weighted average relativity (the balanced relativities are weighted by the percent of exposure so that R should be equal to 0 for additive factors)

E_i – Percent of exposure in the i^{th} category of rating factor j

B – Base rate

For multiplicative factors the weight of Rating Factor j = $\Sigma|(R_i - R)|*E_i*L_i / R_i$

Where R_i – Balanced relativity of the i^{th} category of rating factor j

R – Weighted average relativity (the balanced relativities are weighted by the percent of exposure so that R should be equal to 1 for multiplicative factors)

E_i – Percent of exposure in the i^{th} category of rating factor j

L_i – Average loss costs of the i^{th} category of rating factor j

(d) For verifying compliance with this section the Commissioner will require the submission of summary data to implement the Proxy Weighting Method to accurately estimate the factor weights defined in Section 2632.8(c).

(e) The weights of the factors, as calculated in subdivision (c), must align in decreasing order of importance as follows: driving safety record must have the most weight followed by annual miles driven followed by years of driving experience followed by the weight for the optional factor. If the weights are not in the order as specified herein then the insurer must correct the relativities of the rating factors as follows:

(1) Select the rating factors to be modified.

(A) Compute the weighted average of the initial relativities for the factor over the data set selected in subdivision (b) herein;

(B) Subtract the weighted average from each initial relativity;

(C) Multiply the result of step (B) by a correction factor;

(D) Add the result of step (C) to the weighted average.

The formula for this correction is:

NR = (IR - WA) * CF) + WA

Where: NR = New Relativity

IR = Initial Relativity

CF = Correction Factor

WA = Weighted Average

(2) Repeat process of subdivision (d)(1)(A) through (D) if it is necessary to correct the weight of any of the rating factors.

(3) The weight of a corrected rating factor may not exceed the corrected weight of the succeeding rating factor, in decreasing order of importance, by more than 0.25.